

Message Text

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ACTION AID-59

INFO OCT-01 ADP-00 EA-04 EB-05 INR-10 IGA-02 L-03 AF-05

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R 041140 Z APR 73

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 3417

C O N F I D E N T I A L VIENTIANE 2505

AIDAC

E. O. 11652: GDS

SUBJECT: DAB MEETING APRIL 3

BEGIN SUMMARY. JAPANESE REP PROPOSED MODIFICATION
EXISTING FEOF CLAUSE ON FOREIGN DEBTS ELIGIBLE FOR FEOF,
WHICH OTHER DONOR REPS AGREED SUBMIT TO CAPITALS. JAPANESE
ANTICIPATE AUTHORITY TO ACCEDE TO FEOF DURING LAST HALF
APRIL. AUSTRALIAN EMBASSY AUTHORIZED AS OF APRIL 2.
REPS INITIATED DISCUSSION OF RENEWAL OF FEOF MANAGER
CONTRACTS. JAPANESE REP ASKED DAB APPROVAL FOR SPECIAL
ACCESS BY TWO JAPANESE FIRMS TO FEOF, BUT AGREED WITH DAB
REQUEST TO FIRST HOLD FURTHER BILATERAL TALKS WITH RLG.
END SUMMARY.

1. JAPANESE REP HARASHIMA FORMALLY PRESENTED JAPANESE
GOVERNMENT PROPOSAL FOR NEW PARA V. B. OF FEOF CONFIDENTIAL
LETTER TO READ AS FOLLOWS: QUOTE. V. B. PROVIDED THAT IN
THEIR OPINION THE PROVISIONS IN PARAGRAPH V. A. ABOVE ARE
BEING SCRUPULOUSLY OBSERVED THE OTHER CONTRIBUTING GOVERN-
MENTS WILL AUTHORIZE RECOURSE TO THE LEGAL EXCHANGE MARKET
FOR THE SERVICING OF ANY PAYMENTS FALLING DUE IN 1973 FOR
INDIVIDUAL LOANS, WHOSE TERMS ARE NO LESS FAVORABLE THAN 25
YEARS MATURITY, 3 YEARS GRACE PERIOD AND 3 PERCENT
INTEREST OR WHICH HAVE EQUIVALENT GRANT ELEMENT AS
DEFINED IN THE RECOMMENDATION ON TERMS AND CONDITIONS OF
AID ADOPTED BY THE DAC ON 17 TH OCTOBER 1972. END QUOTE.

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2. IN PRESENTATION, HARASHIMA SAID EXISTING PARA V. B. TEXT SOURCE OF CONCERN FOR GOJ WHICH BELIEVED IT WOULD NOT IMPLEMENT INTENT OF DONORS TO INSURE SOFTEST POSSIBLE TERMS FOR FOREIGN LOANS TO LAOS. HE STATED THAT JAPAN OR OTHER DONORS, UNDER EXISTING ARTICLE V. B. LANGUAGE, WOULD BE ABLE TO JUSTIFY ACCESS TO FEOF FOR DEBT SERVICES EVEN ON VERY HARD COMMERCIAL LOANS, SINCE GRANT ELEMENT (INDEX OF COMPLIANCE SPECIFIED IN DAC TERMS RECOMMENDATIONS) OF ALL DONORS' AID TO LAOS CURRENTLY ALMOST 100 PERCENT, AND HARD COMMERCIAL LOANS WOULD REDUCE OVERALL GRANT ELEMENTS ONLY marginally. JAPANESE GOVERNMENT CONSIDERS THEIR MODIFIED TEXT WOULD ELIMINATE THIS POSSIBILITY.

3. OTHER DONOR REPS, SPECIFICALLY FRENCH REP WHOSE LOAN POLICY MOST LIKELY TO BE AFFECTED BY THIS MODIFICATION, STATED THEY FORESAW NO PROBLEMS WITH JAPANESE PROPOSAL, AND AGREED TO SUBMIT TO CAPITALS.

4. TECHNICAL PROBLEM OF HOW TO ENACT JAPANESE MODIFICATION WAS LINKED IN SUBSEQUENT DAB DISCUSSIONS TO PROCEDURE FOR JAPANESE AND AUSTRALIAN ACCESSION TO CY 73 FEOF ACCORDS. DONOR REPS AGREED TO PROPOSE FOLLOWING:

A. JAPANESE (AND AUSTRALIANS) USE MODIFIED ARTICLE V. B. IN THEIR EXCHANGE OF CONFIDENTIAL LETTERS WITH RLG.

B. JAPANESE EMBASSY FORMALLY DRAW ATTENTION OF OTHER DONOR EMBASSIES TO ARTICLE V. B. MODIFICATION IN GOJ (AND AUSTRALIAN) TEXTS.

C. OTHER DONOR EMBASSIES WOULD ACKNOWLEDGE JAPANESE NOTE BUT WOULD NOT EXCHANGE LETTERS WITH RLG.

5. AT EXPLICIT REQUEST OF AUSTRALIAN REP, DAB AGREED TO PROPOSE THAT A COMPLETE NEW MEMORANDUM OF UNDERSTANDING BE SIGNED BY ALL AMBASSADORS AND PRIME MINISTER. AUSTRALIAN REP STRESSED THEIR DESIRE THAT MEMORANDUM CONTAIN ALL PREVIOUS REFERENCES TO ORIGINAL CONTRIBUTING GOVERNMENTS.

6. DAB REVIEWED FEOF MANAGER AND ASSISTANT MANAGER' S REQUEST FOR MODIFICATION THEIR CONTRACTS WHICH DUE TO CONFIDENTIAL

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EXPIRE JULY 12, 1973. PRINCIPAL REQUEST IS EARLY HOME

LEAVE TRAVEL. DAB AGREED ASK MORE SPECIFIC PROPOSALS FROM MANAGERS.

7. JAPANESE REP REQUESTED DAB RULE PROMPTLY ON LONG- STANDING JAPANESE REQUEST FOR ACCESS OF JAPANESE CONTRACT EMPLOYEES TO FEOF 605 RATE OF EXCHANGE. THESE HAZMA- GUMI EMPLOYEES ON CONTRACT TO LAO GOVERNMENT IN THA NGONE PROJECT, AND CONTRACT SPECIFIES THAT 66 PERCENT THEIR SALARIES (PAID IN KIP FROM JAPANESE COUNTERPART) BE REPATRIATED IN FOREX. JAPANESE REP STATED THAT FAILURE OF RLG TO MAKE GOOD ON REPATRIATION CLAUSE, VIA EITHER FOREX BUDGET OR FEOF, COULD LEAD TO CANCELLATION OF THE CONTRACT AND CREATE POLITICAL DIFFICULTIES FOR JAPANESE GOVERNMENT WHICH UNDER STRONG CRITICISM FROM DIET AND COMPANY INTERESTS IN JAPAN. JAPANESE REP LINKED PAYMENT TO PROPOSED INCREASE IN JAPANESE CONTRIBUTION TO FEOF FROM \$2.6 TO \$3.0 MILLION THIS YEAR.

8. OTHER DONOR REPS EXPRESSED CONCERN THAT JAPANESE REQUESTS COULD ESTABLISH PRECEDENT FOR INTERVENTIONS BY DONORS IN OPERATIONS OF FEAC IN PROTECTION OF NATIONAL INTERESTS AND URGED THAT JAPANESE SEEK SETTLEMENT THRU UTILIZATION OF BNL FUNDS SINCE RLG WAS CONTRACTOR. USAID DIR URGED THAT JAPANESE AND RLG TREAT ISSUE AS BILATERAL QUESTION AND NOT INVOLVE DONOR GROUP. IF RLG CHOSE TO EFFECT TRANSFER THROUGH FEOF MARKET, RLG MUST ASSUME RESPONSIBILITY FOR CONSEQUENCES, SPECIFICALLY THE POSSIBILITY THAT IT MIGHT HAVE CHAIN EFFECT RESULTING IN FEOF SHORTFALL, JAPANESE AND RLG REPS AGREED TO DISCUSS MATTER FURTHER IN BILATERAL TALKS.

9. JAPANESE REP ALSO RAISED QUESTION OF DELAYED PAYMENT OF FOREX BY LAO FIRM FOR JAPANESE TRUCKS IMPORTED IN 1970. CURRENT FEAC RULES DO NOT AUTHORIZE SUCH BACK PAYMENTS. US AND FRENCH REPS POINTED TO DANGERS THAT REVERSAL THIS POLICY MIGHT CREATE FOR FEOF DEMAND AND SUGGESTED THAT RLG MAKE A CLEAR RULING ON THE SUBJECT. USAID DIR NOTED THAT COMPANY COULD FREELY PURCHASE 840 RATE EXCHANGE TO MEET ITS OBLIGATION, AND HAD NO BASIS IN ACCEPTED INTERNATIONAL COMMERCIAL PRACTICE TO DEMAND COMPENSATION FOR EXCHANGE LOSS FROM FORWARD SALE. HE AGAIN STRESSED DANGERS INVOLVED IN CREATING PRECEDENT FOR ACTIVE
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INTERVENTION BY DONOR REPS IN OPERATIONS OF FEAC.
JAPANESE AND RLG REPS AGREED TO CARRY ON DISCUSSIONS AT BILATERAL LEVEL.

10. AT CLOSE OF MEETING AUSTRALIAN REP ANNOUNCED HIS

AMBASSADOR HAS RECEIVED AUTHORITY TO SIGN ACCESSION TO
FEOF ACCORDS, AND CONFIRMED THAT GOA CONTRIBUTION WOULD
BY US\$900,000.

11. RECOMMEND PROPOSAL OF JAPANESE ARTICLE V.5
OF CONFIDENTIAL LETTER AND AUSTRALIAN PROPOSAL TO
SIGN AGAIN UNDERSTANDING BE APPROVED AS SOON AS
POSSIBLE TO PERMIT BOTH COUNTRIES TO ACCEDE TO
STABILIZATION AGREEMENT. ASSUME THAT AMBASSADOR OR
HIS DESIGNEE STILL HAS AUTHORITY TO SIGN AGAIN MEMORANDUM
OF UNDERSTANDING.
DEAN

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*** Current Classification *** CONFIDENTIAL

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